

Message Text

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ORIGIN AGR-20

INFO OCT-01 EUR-25 ISO-00 EB-11 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 TAR-02

SWF-02 CEA-02 L-03 /139 R

66650

DRAFTED BY SDTP:WNSTARKEY:FAS

APPROVED BY EB/ICD/TRP:HFWANNING

FAS:BKMEEKER/EWHALLOWELL/WFDOBBINS

ASCS:RRSTANSBERRY

AGRIC:ERBEVIS

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R 011520Z MAY 74

FM SECSTATE WASHDC

TO AMEMBASSY REYKJAVIK

UNCLAS STATE 088994

EO 11652: N/A

TAGS: EAGR

SUBJECT: AGRICULTURAL TRADE OPPORTUNITY---SUGAR

REF: REYKJAVIK 0562

1. WHILE USDA STRONG EXPONENT EXPORT PROMOTION AGRICULTURAL PRODUCTS, POSITION OF SUGAR VERY DIFFERENT FROM OTHER AGRICULTURE COMMODITIES.

2. THE U.S. IS THE WORLD'S LARGEST IMPORTER REPEAT IMPORTER OF SUGAR. UNDER THE U.S. SUGAR ACT, U.S. PRODUCERS HAVE QUOTAS FOR MARKETING TOTALING ABOUT 55 PERCENT OF DOMESTIC REQUIREMENTS. FOR THE BALANCE, 45 PERCENT, THE U.S. DEPENDS ON OVERSEAS SUPPLIERS UNDER AN IMPORT QUOTA SYSTEM.

3. FOR MUCH OF THE PAST YEAR AND FOR THE BALANCE OF AT LEAST
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THIS CROP YEAR, THE U.S. IS AN ATTRACTIVE SOURCE FOR SUGAR

SUPPLIES. A TIGHT WORLD SUGAR SITUATION, PLUS INFLATION AND MONETARY DIFFICULTIES, HAS BROUGHT ABOUT A REVERSAL OF THE PREVIOUS RELATIONSHIP BETWEEN U.S. AND WORLD MARKET PRICES. U.S. PRICES HAVE IN THE PAST USUALLY BEEN ABOVE WORLD PRICES, THEREBY MAKING THE U.S. NONCOMPETITIVE IN EXPORT MARKETS. PRESENTLY, HOWEVER, U.S. PRICES ARE BELOW WORLD PRICES BY 4 TO 5 CENTS PER POUND MAKING THE U.S. PRICES VERY COMPETITIVE.

4. THIS CURRENT PRICE SITUATION, AT LEAST TO THE EXTENT IT IS CAUSED BY TIGHT SUPPLIES, MAY BE ALLEVIATED WHEN NEW CROPS COME TO MARKET LATER THIS YEAR. AT SUCH TIME, U.S. AND WORLD PRICES WOULD BE EXPECTED TO RETURN TO A MORE USUAL RELATIONSHIP AND U.S. SUGAR AGAIN BE PRICED OUT OF THE MARKET.

5. THEREFORE, WE ARE DISCOURAGING SUGAR EXPORTS FROM THE U.S. AS A MATTER OF POLICY. FURTHER TO YOUR SUGGESTION FOR DISCUSSIONS WITH AMSTAR, WE BELIEVE THAT IT WOULD NOT BE IN OUR INTERESTS TO INTERFERE WITH THE EXISTING RELATIONSHIP BETWEEN TWO COMMERCIAL FIRMS. RUSH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE OPPORTUNITY REPORTS, AGRICULTURAL COMMODITIES
Control Number: n/a
Copy: SINGLE
Draft Date: 01 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE088994
Document Source: CORE
Document Unique ID: 00
Drafter: WNSTARKEY:FAS
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740104-0500
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740582/aaaacvwu.tel
Line Count: 80
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN AGR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: REYKJAVIK 0562
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 17 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 OCT 2002 by boyleja>; APPROVED <02 JAN 2003 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: AGRICULTURAL TRADE OPPORTUNITY---SUGAR
TAGS: EAGR, US, IC
To: REYKJAVIK
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005